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Pipeline Diplomacy: The Clinton Administration's Fight for Baku-Ceyhan

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Introduction

In August 1997, President Heydar Aliyev of Azerbaijan, a former republic of the Soviet Union enjoying only its sixth year of independence, was received at the White House with full honors for an official working visit with President Bill Clinton. Vice President Al Gore, Speaker Newt Gingrich and Defense Secretary William Cohen also met with Mr. Aliyev. The White House used the occasion to announce several economic assistance packages while President Aliyev signed a new Amoco exploration deal. The lavishness of this visit was surreal, given that the United States employs restrictive sanctions against Azerbaijan for its conflict with Armenia and democracy advocates sharply condemn Mr. Aliyev for autocratic practices. Nevertheless, Mr. Aliyev's grand reception at the White House was only one step in an elaborate Clinton administration policy in the pursuit of what it considers a U.S. national interest: ensuring the potentially lucrative oil reserves in Azerbaijan and adjoining energy fields in the Caspian Sea flow through pipelines in a westward direction to the friendly markets of Turkey and Western Europe. In order to achieve this objective, the administration has actively engaged the government of Azerbaijan with public and private diplomacy, offered the prospect of closer defense cooperation, provided commercial incentives to bolster investment in Azerbaijan, and pressed Congress to lift sanctions. At the same time, the U.S. has sent blunt, if veiled, messages to Russia and Iran to keep their distance from the emerging oil bonanza in Azerbaijan and Central Asia in general. This paper will examine how the Clinton administration deployed a comprehensive package of inducements to persuade Azerbaijan to endorse only those pipeline routes which ran through friendly, U.S. allied states towards Europe and avoided transit through Russia and Iran. While the U.S. has pursued similar policies with the governments of Kazakhstan and Turkmenistan, American efforts in "The Great Game, Part II" have centered primarily on Azerbaijan and will serve as the focus of this paper.

CASE STUDY, PART A:
RECOGNITION OF U.S INTERESTS AND DEVELOPMENT OF AN ENGAGEMENT STRATEGY TOWARDS AZERBAIJAN

Background

The lands bordering the Caspian Sea have long been known for holding sizable energy resources, even dating back to the days of the 13th century, when Marco Polo reported geysers of fire emanating from the earth. One of Adolph Hitler's goals in invading Russia involved gaining access to the riches of the Caspian region. Under Soviet control for most of this century, the oil fields in the Caspian region remained dormant, ignored by Moscow in favor of the oil reserves in Siberia. However, primitive Soviet technology was incapable of estimating the size of deep oil and gas deposits, leaving a significant portion of the Caspian reserves unrecognized. The minor oil extraction that did take place resulted in significant environmental degradation and the scattered debris of outdated Soviet drilling technology. Nevertheless, the introduction of advanced technology at the turn of this decade indicated oil and gas reserves in the region far surpassing previous estimates. Experts have already confirmed 17 billion barrels of crude oil in Azerbaijani oil fields alone; this figure is expected to rise to more than 30 billion barrels.[1] In fact, a State Department report issued in April 1998 estimates the entire

Caspian Sea reserves could rise to a potential level of 178 billion barrels or more, an amount thirty times the size of the Alaskan North Slope reserves.[2]

Following the breakup of the Soviet Union in 1991, the newly independent regime of then Azerbaijani President Abulfaz Ali Elchibey quickly recognized that development of its energy resources could mean a promising road out of the grinding poverty imposed by 70 years of communism. Azerbaijani officials also believed that oil represented a valuable hedge against renewed Russian intervention. Baku moved quickly to negotiate drilling rights agreements with international oil giants. In June 1993, President Elchibey was ready to sign a concessions agreement with an international consortium when he was overthrown by a new regime headed by the former Communist Party chief Heydar Aliyev. Because Elchibey was stridently anti-Russian and the proposed oil agreement completely excluded Russia, many observers inside the region believe that the coup was orchestrated with assistance from Moscow. If so, Russia clearly picked the wrong horse in Aliyev as the successor, who has been just as committed as his predecessor to the preservation of Azerbaijani sovereignty. Following more than a year of renewed and laborious negotiations, the Azerbaijani government concluded a deal in September 1994 establishing the Azerbaijani International Operating Corporation. The AIOC, a global oil consortium consisting of twelve shareholder companies, including a 20% share for SOCAR, the Azerbaijani state oil company, committed to spend $7.4 billion to develop the Azeri, Chirag and Guneshli fields in the Caspian Sea off the Azerbaijani coast. These fields carry estimated recoverable reserves of 3.3-3.7 billion barrels of oil; the agreement set a production goal of 800,000 to one million barrels per day by 2010. The American partners in the deal, Amoco, McDermott, Unocal and Pennzoil, combined for a 43.8%

share while British Petroleum garnered a 17% share. However, Moscow's interests were represented in this second agreement; the Russian state oil company, Lukoil, received a 10% share. The agreement provides that 70% of the profits from the oil extraction will return to the Azerbaijani government.[3]

It was no accident that U.S. companies secured the largest shares in the AIOC. First of all, American suitors were very aggressive in moving into the Caspian Sea region immediately following the demise of Soviet control. Although British Petroleum had an initial advantage due to historic British influence in the region, U.S. oil companies engaged in extensive lobbying with government officials to regain lost ground. But more importantly, successive Azerbaijani governments recognized the enormous value of giving the United States, the world's sole superpower, a vital stake in the future of their country. According to Ilham Aliyev, vice president of the Azerbaijani state oil company and son of President Aliyev, "We used oil for our major goal....to become a real country"[4]. Lingering Russian claims to a de facto sphere of influence over the Caspian region represented the greatest threat to Azerbaijan. By securing an active presence by American corporate interests, Azerbaijan believed that it could leverage a larger U.S. role in preventing renewed Russian attempts at domination.

However, securing access to the Azerbaijani oil fields represented only the first step for the international oil consortium. The greater challenge lies in the transportation of the oil out of the region and into the lucrative markets of Western Europe, South Asia, and increasingly China. Unfortunately, the immediate region surrounding the Caspian Sea oil deposits is, in short, a bad neighborhood. The local geography includes the hodgepodge of a menacing former colonial master, an international pariah state and multiple ethnic conflicts. The routing of pipelines will therefore not be rest on commercial and financial issues alone, but will also involve regional politics.

Where Can the Pipelines Go?

It is useful to briefly pause here and examine the possible pipeline routes available for the export of Azerbaijani oil. As Figure I demonstrates, Azerbaijan's chief liability consists of the fact that it is a land-locked country and must rely on neighboring states to transport its oil. An existing pipeline runs from the capital of Baku to Novorossiisk, a Russian port on the Black Sea. This 60-cm-diameter pipeline, while recently rehabilitated, only retains the capacity for 180,000 barrels per day, runs through the war-torn Chechnya region, and is considered a medium-term option only. The pipeline will not be able to handle the expected volume once the three major oil fields come fully on-line, expected in the early part of the next decade. In fact, Moscow has urged construction of a larger pipeline that would run alongside the existing line. However, both Azerbaijan and the U.S. government oppose this proposal, because they fear that it would provide Moscow with undue leverage over Azerbaijan.

Baku has chosen to support construction of a Baku-Supsa, Georgia pipeline to provide additional carrying capacity for oil and gas supplies. This route runs westward for 550 miles from Baku across Georgia to the Black Sea port of Supsa. The pipeline, expected to begin operation by the spring of 1999 at a cost of $590 million (twice the original cost estimate) and to hold a transport capacity of 120-150,000 barrels per day, enjoys support from Washington because it bolsters the economy and strategic position of a U.S. ally in the region. However, continuing political instability in the small country, marked by two pernicious ethnic conflicts and repeated assassination attempts against Shevardnadze, raise long-term concerns over the stability of the pipeline.

While the existence of the dual pipelines to Novorossiisk and Supsa should meet expected export volumes of Azerbaijani oil in coming years, the pipelines may be insufficient to convey the expected oil volumes once the three major Azerbaijani oil fields come fully on-line in the next decade. Hence, the past two years have been marked by intense regional discussions over the route of the "main export pipeline", which would include a significantly larger carrying capacity than either the present Novorossiisk or Supsa lines. As previously mentioned, Russia supports building a new pipeline parallel to the Baku-Novorossiisk route, but this idea does not draw support elsewhere. The United States supports the construction of a longer pipeline, which would begin at Baku, transit Georgia and much of Turkey before exiting at the Mediterranean Sea port of Ceyhan (pronounced JAY-HAN). This pipeline could also incorporate an eastern extension running to Kazakhstan, thus drawing in the oil and gas supplies from the lucrative fields in that nation. Apart from geopolitical reasons, discussed below, the Baku-Ceyhan route offers several commercial advantages. First of all, it would avoid expansion of tanker traffic through the overcrowded Bosphorous Straits. The Novorossiisk and Supsa routes require that tankers transport Azerbaijani oil exports through the Straits in order to access the Mediterranean and, hence, the Western European markets. But the Ceyhan option would avoid the Black Sea and the Bosphorous Straits altogether. Secondly, the Baku-Ceyhan route would offer greater political stability, although the ever-present threat of Kurdish terrorism does not make Turkey an automatic safe-haven. Nevertheless, oil companies have been lukewarm towards the Baku-Ceyhan route because due to its enormous cost. Traversing roughly 1040 miles through mountainous territory, construction of this pipeline would incur a price tag of $4 billion, exceeding by cost substantially any likely alternatives.

Other pipeline options exist. A main export pipeline could simply be built alongside the newly constructed, but medium-volume, Baku-Supsa pipeline. However, the most direct and convenient route would flow southward from Baku through Iran to the Kharg Islands terminal on the Persian Gulf, offering more convenient access to the growing economies of South and East Asia. Ironically, Iran represents a haven of political stability for any pipeline in the context of the threats of Kurdish terrorism and Georgian separatism shadowing the Baku-Ceyhan route. However, a proposed Iranian route would run afoul of the strict U.S. embargo against Iran and would require either the complete exclusion of American oil companies or an easing of U.S. policy towards Tehran. Moreover, the construction of the main export pipeline through Iran would exponentially increase Iranian leverage over world oil supplies, because Iran could shut the pipeline off at any time or obstruct tanker traffic out of the Persian Gulf through its control of the Straits of Hormuz.

Another pipeline option would still utilize the Black Sea ports of Novorossiisk and Supsa, but avoid tanker traffic through the fragile Bosphorous Straits. Under this approach, ships would transport the oil across the Black Sea to the Bulgarian port of Burgas, where a pipeline would then transport the oil overland to the Greek Mediterranean port of Alexandroupolis. However, this route offers greater complexity by adding two more governments into the negotiations; moreover, the deltas bordering Alexandroupolis are environmentally fragile and may not handle well the stress of additional tanker traffic. A final proposal, assuming a settlement of the Nagorno-Karabakh conflict between Azerbaijan and Armenia, would channel a pipeline through the disputed enclave itself and Armenia and then proceed on through Turkey to the Mediterranean coast. This option is seen as a potential economic inducement for the Armenian government to give up its claim to Nagorno-Karabakh, but the Yerevan government has refused to trade territory for economic gains.

The Origins and Contours of American Policy

Following the breakup of the USSR and the emergence of newly independent states in the Caspian Sea region, the Bush administration moved quickly to establish diplomatic relations with Azerbaijan and open a new embassy in Baku, earning praise and goodwill from the original Elchibey government. Nevertheless, outside of regional specialists at the National Security Council and in the State Department, the issue of Caspian Sea pipelines barely registered on the radar screens of official Washington. However, American oil companies, led by Don Stacy, director of Eurasian operations for the U.S. company Amoco, initiated an intense advocacy campaign through a newly created lobbying arm, the Foreign Oil Companies Group. Designed foremost as an education campaign, the oil representatives stressed to members of Congress and others in Washington the potential value of Azerbaijan's oil deposits and its strategic significance. However, high-ranking national security officials in the Clinton administration had already recognized legitimate geopolitical reasons for an aggressive U.S. presence in the Caspian and began to take action at the beginning of 1995.

The Deputies Committee, a group consisting of high-level department and agency officials and chaired by then Deputy NSC Advisor Sandy Berger, met during the spring and issued policy guidance recognizing the importance of the Caspian oil reserves and the need for greater U.S. attention to this issue. The Deputies Committee agreed on the policy objective of "multiple pipelines" (discussed below) and called for the convening of an interagency group to be directed by Berger, which would manage the implementation of U.S. policy on the Caspian Sea. As this interagency group surveyed the implications of the direction and placement of possible Caspian pipeline routes, the U.S. national interests in the issue quickly emerged. They can be enumerated in the following manner:

1) **Strengthening the sovereign independence of Azerbaijan and its fellow newly independent states** bordering the Caspian Sea and, conversely, reducing Russian influence over a traditional "sphere of influence".

2) **Promoting a westward orientation of Azerbaijan and the other Central Asian states and creating a regional framework of cooperation with Turkey**, the primary U.S. ally and NATO partner in the region. The states of Central Asia have lived under the predominant cultural influence of Russia for most of the 20th century. As they emerge from under the shadow of Moscow, Azerbaijan, Kazakhstan, Turkmenistan and other Central Asian states can use three models for guidance: the benign authoritarianism of Russia, the Islamic fundamentalism of Iran, or the secular Western outlook of Turkey. Clearly, the U.S. supports the final approach for Central Asia, because it coheres with American values and it offers greater influence for Turkey.

Indeed, the Clinton administration views the construction of one or more export pipelines through Turkey as vital to its ally's future economic stability and Western orientation. By playing host to pipelines, Turkey would accrue significant revenues through the collection of transit fees and other payments. Moreover, Central Asia offers a safe alternative in regional integration for Turkey in the event that the European Union continually rebuffs Ankara's bid for membership.

3) **Diversifying the world's energy supplies, including reducing global overdependence on the oil reserves of the Persian Gulf.** The accelerating world-wide demand for oil, especially in the surging economy of China, will likely renew concern over the excessive Western, especially European, reliance on the Persian Gulf for its energy resources. Secure Western access to the Caspian Sea oil deposits, even if they do not match the high estimates made at the beginning of the 1990's, will offer an alternative energy source and reduce the strategic significance of the Persian Gulf for the U.S..

4) **Excluding Iran from any access to the economic benefits of regional development**, based upon the firm U.S. containment policy against Tehran for its support of terrorism and attempted acquisition of weapons of mass destruction. In Congressional testimony, Deputy Secretary of State Strobe Talbott declared,

> We continue to caution nations throughout the [Caucasus] region about the development of close relations with Iran. As a state-sponsor of terrorism and a nation bent on the development of weapons of mass destruction, Iran still poses a threat to all its neighbors. Moreover, we are against any state in the region being allowed to dominate the region, politically or economically. We will continue to work with all the states of the Caucasus to thwart the growth of Iran's influence in the region.[5]

5) **Advancing U.S. corporate interests in the region**. Every major oil company in the world is jockeying for a share of the Azerbaijani and other Central Asian oil production once it comes fully on-line during the next decade. The White House, using its

leverage to the extent possible, wants to ensure that American companies receive a fair shot at all tendered contracts.

The administration then faced the challenge of translating these broad U.S. interests into specific policy objectives regarding the shape and direction of the pipelines exporting oil from Azerbaijan and its Central Asian neighbors. Two particular goals emerged once the dust settled:

1) "Multiple pipelines is happiness": This bumper sticker, seen on many cars in Baku these days, captures the administration's belief that a broad network of multiple pipelines crossing the region will ensure security, both for the oil-producing states themselves and consumer markets outside the region. For example, multiple pipelines would ensure that Russia could not hold undue leverage over the Caspian Sea by routing a solitary main route through Russian territory. Moscow could then endanger the Central Asian states' economic livelihood with a mere threat to shut off the pipelines. The Deputies Committee meeting, which first established general U.S. policy on the Caspian Sea issue, also reached consensus in 1995 on the multiple pipelines approach.

2) East and West, but not Up or Down: The U.S. most favors pipelines which would run in a westward direction from the Caspian Sea region, ensuring a steady stream of energy resources for its Western European allies. These pipelines can also transit Turkey, providing important revenues for Ankara and further securing Turkey's place in NATO and the West. At the same time, the administration has offered no opposition to pipelines running eastward in the direction of China; in fact, Chinese oil concerns have been very active in securing oil concessions in Kazakhstan in order to ensure an energy source for their growing coastal markets.

However, the administration is reluctant to support additional pipelines running northward to Russia beyond the current pipeline from Baku to the Black Sea port of Novorossiisk, nor do they want the Baku-Novorossiisk route serve as a model for a parallel main export pipeline. While senior officials have repeatedly declared over the past three years that they are not striving to block Russian participation, the U.S. has shown no great enthusiasm for further Russian involvement in Caspian Sea pipelines. Meanwhile, the administration has gone on the record in opposing any pipelines that run southward and transit Iranian territory. In addition to citing the U.S. containment policy against Iran, American officials also argue that routing pipelines through Iran is bad commercial policy for the Central Asian states, since Tehran has an economic incentive to disrupt Caspian Sea oil exports when necessary to support its own oil industry.

Execution of American Policy, 1995-1998

In examining how to achieve the policy objective of multiple pipelines running on an east-west axis, the administration faced an important obstacle. While sovereign governments in the region certainly held important influence on pipeline routes, the Azerbaijani International Operating Consortium would deliver the final judgement on the placement of specific pipelines, because the participating oil companies would have to provide the necessary financing. While American companies do hold an important plurality of the shares in the Azerbaijani oil consortium, they share power with British Petroleum, other European oil companies, and even Lukoil, the Russian state oil concern. The U.S. holds little potential leverage over these oil companies, apart from possibly paying for pipeline construction itself, an option ruled out early on by the administration due to its political unfeasibility. However, the Azerbaijani government retains powerful leverage; after all, it is their oil which will be flowing through future pipelines. Accordingly, the Clinton administration decided to focus its efforts on the Azerbaijani government. By actively engaging Baku and offering the promise of closer relations with the U.S., the White House hoped that Azerbaijan would follow American advice on the pipeline question and exert its own pressure on the oil companies to follow suit. In seeking to build an active partnership with Baku, the Clinton administration pursued a multi-faceted approach, consisting of traditional private and public diplomacy, commercial diplomacy, potential defense cooperation, and legislative pressure upon the American Congress. Before we examine how the U.S. government pursued its "pipeline diplomacy", it is instructive to examine the internal bureaucratic dynamics in Washington itself.

Interagency sessions, while no longer at the level of the Deputies Committee which had met in early 1995, continued over the next three years. However, because neither Berger nor his counterpart Strobe Talbott from the State Department attended the meetings, the group drifted, lacking strong leadership. As events in the region began to move more quickly in 1998, the administration came to recognize the need for a high-level official who could give the issue daily, hands-on attention. In July 1998, President Clinton appointed Richard Morningstar, who had previously served as U.S. Assistance Coordinator for the Newly Independent States, to the newly created position of Special Advisor to the President and the Secretary of State for Caspian Basin Energy Diplomacy. Morningstar subsequently assumed chairmanship of the interagency coordination group, breathing new energy into it. Owing to this issue's intersection of energy, commerce, and national security issues, a range of U.S. Cabinet departments are represented in the group, including State, Energy, Commerce, AID, CIA, the Office of the Vice-President and others. This interagency group, formally titled the "Interagency Coordination Group on Caspian Basin Energy Development and Transportation", meets approximately every three weeks and primarily conducts short-term strategic planning, i.e. what developments are emerging and how should the U.S. respond, etc.. Other high-level officials who have worked actively on the Caspian pipelines issue include Jan Kalicki, a Commerce Department official, Stephen Sestanovich, U.S. Ambassador to the Newly Independent States (NIS), and Energy Secretary Federico Pena. NSC staffers Sheila Heslin and her successor John Elkind have run the day-to-day White House oversight of the issue.

Public and Private Diplomacy

In fashioning a policy of active engagement with both Azerbaijan and its Central Asian neighbors, the Clinton administration has relied most prominently on public displays of partnership, including frequent visits by senior U.S. officials to the region and public statements on U.S. hopes for the region. For example, Deputy Secretary of State Strobe Talbott delivered the most definitive summary of U.S. policy in a speech at Johns Hopkins University in July 1997, only a week before President Aliyev's visit to the White House. He attempted in particular to dispel any Russian notions of U.S. encroachment upon the region at Moscow's expense:

> In pondering and practicing the geopolitics of oil, let's make sure that we are thinking in terms appropriate to the 21st century and not the 19th. The Great Game....was very much of the zero-sum variety. What we want to help bring about is just the opposite: We want to see all responsible players in the Caucasus and Central Asia be winners.....We believe that our presence and influence in the region can itself be a force for the right kind of integration.

In its initial contacts with the Central Asian governments, the administration often relied on the use of non-official personages to break the ice. Washington foreign policy heavyweights such as Henry Kissinger, General Brent Scowcroft, and Zbiginiew Brzezinski have been particularly active in the region, serving as consultants to the involved American oil companies. But, in several cases, they have also served as back-channel contacts, which the administration has used to signal support or displeasure with a particular idea. In mid-1995, Azerbaijan and its international oil consortium, the AIOC, were considering options for the initial transport of moderate export volumes from recently tapped oil fields. The AIOC leaned toward the inexpensive option of simply fixing up the pre-existing line from Baku to Novorossiisk, the Black Sea port, at a cost of $50 million. Meanwhile, Russia was exerting strong pressure on Baku to provide its support for this proposal. Having just announced its support for "multiple pipelines", the administration hardly wanted to see the first major pipeline decision run counter to its new policy. Hence, Deputy NSC Advisor Berger met twice during the summer with Terry Adams, a British Petroleum executive who served as head of the AIOC, to successfully persuade him to support construction of the Baku-Supsa medium-volume pipeline as an alternative to the Novorossiisk route. However, the administration needed to secure Azerbaijani President Aliyev's support for the Baku-Supsa construction as well.

NSC Advisor Tony Lake contacted Brzezinski, who was planning a trip to Baku in September, and asked him to carry a letter from President Clinton to Aliyev. The letter enunciated the American preference for a second pipeline to Supsa and offered U.S. assistance in brokering the Azerbaijani dispute with Armenia over the enclave of Nagorno-Karabakh. After handing over the letter, Brzezinski then held intense talks with Aliyev over the next several days, followed by personal lobbying in a phone call from President Clinton. President Clinton then weighed in with a telephone call to Aliyev days before the Azerbaijani President was due to make his final decision. Aliyev, intrigued by the prospect of closer relations with the U.S., agreed to support the Supsa pipeline. On October 9th, 1995 the AIOC, with Aliyev's blessing, announced its plans to use both the Novorossiisk and the Supsa routes to export initial oil volumes from the three main Azerbaijani oil fields.

The administration's efforts in both public and private diplomacy reached their climax in August 1997 when President Clinton received President Aliyev at the White House for a visit with full pomp and circumstance. Despite heavy criticism from democratization advocates concerning U.S. legitimization of an autocratic dictator and charges of favoritism from Armenian-Americans, President Aliyev met with the President, Vice-President, Cabinet secretaries Albright, Cohen and Pena, and CIA Director George Tenet. Subjects for discussion included the Nagorno-Karabakh conflict and Azerbaijan's record on political pluralism and economic liberalization in addition to the pipelines issue.

The two countries also used the White House summit to complete the U.S.-Azerbaijani Bilateral Investment Treaty. A standard arrangement maintained by the U.S. with almost forty other nations, the accord guarantees treatment for Azerbaijani or U.S. investors in the other country equal to that given to domestic investors in most commercial sectors. President Aliyev and Vice President Gore also witnessed the signing of further oil exploration and production contractions between the Azerbaijani oil company SOCAR and U.S. companies Mobil, Exxon, Chevron and Amoco.

The administration used this visit to trumpet the emerging U.S. partnership with Azerbaijan and sought to identify further areas of cooperation. Following President Aliyev's visit, the White House issued a statement declaring that the visit

> marks a milestone in the partnership between our nations and shows the promise of our growing cooperation.....[The two Presidents] signed a Joint Statement that reinforces our two nations' commitment to expand our partnership, promote regional peace and help Azerbaijan play its rightful role in Europe's new structures.[6]

The final component of the U.S. diplomatic offensive towards Azerbaijan constituted a re-energized U.S. role in attempting to broker a peace in Nagorno-Karabakh. This enclave was part of the Azerbaijani Republic in the former Soviet Union, even though it consisted of a strong Armenian-majority population. During the final days of the USSR, the populace of Nagorno-Karabakh agitated for separation from Azerbaijan and sought a confederation with their ethnic kin in Armenia. War broke out between the two nations in 1988 and raged for six years, in which Armenia established a decisive advantage. An unofficial cease-fire has existed since 1994, but Armenian troops occupy both Nagorno-Karabakh and seven other Azerbaijani regions, constituting a total of 20% of Azerbaijani territory.

When President Clinton intervened with President Aliyev in the fall of 1995 to lobby Azerbaijan to accept the construction of a second medium-term pipeline to Supsa, Georgia, he offered to have the U.S. government engage more actively in peace efforts. Subsequently, in early 1997, the U.S. took a more direct role by assuming co-chairmanship of the OSCE peace process on this dispute, along with Russia and France. Deputy Secretary of State Talbott serves as the U.S. representative in this process. The OSCE efforts achieved an initial breakthrough in the winter of 1997 when Presidents

Aliyev and Levon Ter-Petrossian of Armenia agreed on a tentative agreement that would provide for normalization of ties between both countries, the return of refugees, the removal of all armed forces from occupied territory and the deferral of a decision on the status of Nagorno-Karabakh. However, the leaders of Nagorno-Karabakh balked at this deal, demanding full independence for their territory at this point. The Armenian President then resigned under pressure and Robert Kocharian, a native of Nagorno-Karabakh, won his office in subsequent elections, once again leaving the peace process frozen in place. More recently, Energy Secretary Federico Pena offered his personal mediation services during an April 1998 visit to the region concerning a separate dispute between Azerbaijan and Turkmenistan over the precise delimitation of boundaries between the two countries' adjoining oil fields in the Caspian Sea.

Commercial Diplomacy

The Clinton administration has also used U.S. financial aid in an attempt to establish closer relations with Azerbaijan. Because of the U.S. sanctions in place against Azerbaijan (discussed below), the administration has not been able to provide foreign aid or any other type of direct assistance to the Baku regime. Consequently, it has relied on indirect commercial and financial assistance for U.S. companies investing in energy and other business projects in Azerbaijan.

In carrying out U.S. commercial assistance, the Clinton administration has relied on the capacities of the three main government finance and investment agencies: the Trade and Development Agency (TDA), the Overseas Private Investment Corporation (OPIC), and the Export-Import Bank. For example, in June of 1997, the TDA announced a feasibility study for a trans-Caspian gas pipeline which would establish one unitary route of Turkmenistan-Baku-Ceyhan. In October 1998, Undersecretary of State for Economic Affairs Stuart Eizenstat announced a $823,000 TDA grant for technical assistance to Botash, the Turkish pipeline consortium, for its study of a proposed Baku-Ceyhan route.

The U.S. has also initiated efforts to develop an on-the-ground commercial presence in the region. In May 1998, Energy Secretary Pena announced the establishment of the Caspian Sea Initiative at a conference in Istanbul sponsored by the U.S. Trade and Development Agency (TDA). It aims to coordinate the efforts of the U.S. government finance and investment agencies mentioned above. While the initiative seeks to promote investment in energy projects throughout the region, arranging financing for the U.S.-favored Baku-Ceyhan route is a key focus. In October, the administration provided substance to this initiative by opening the Caspian Trade and Investment Finance Center in Ankara, Turkey. The center will be staffed by representatives of the three U.S. agencies mentioned above and will serve as on-the-ground presence to spearhead financing for regional energy projects.

Finally, the U.S. has encouraged greater communication and dialogue between AIOC corporate representatives and regional government officials, especially those from Azerbaijan and Turkey. As this paper will discuss in greater detail later, the primary obstacle to adoption of the Baku-Ceyhan route lies in its prohibitive costs. The route will only become a feasible option for the oil companies if the governments involved offer more beneficial concessions and lower transit fees. According to one estimate, the Baku-Ceyhan route requires annual subsidies in the range of $365-550 million per year to become financially viable.[7] Turkish government officials have been reluctant to engage in specific negotiations with AIOC representatives over cost parameters; in response, U.S.

government officials have encouraged Ankara to be more forthcoming, especially in wake of the absence of a specific AIOC commitment this fall for the Baku-Ceyhan route.[8] At the behest of AIOC members, U.S. officials conveyed their desire that Ankara impose a cost cap on pipeline construction in order to shield the oil companies from run-away costs.[9] However, the U.S. has not offered any specific dollar figures vis-à-vis the commercial relief the Turkish government should offer. The U.S. has also not considered any *quid pro quo* whereby the U.S. government would provide greater economic assistance to Ankara in return for more lucrative concessions by Turkey on the Baku-Ceyhan route.

Military Co-operation

The administration has also offered the promise of greater U.S. defense co-operation with Azerbaijan. For example, NATO, through its Partnership for Peace program, has established the Central Asian Peacekeeping Battalion, or CENTBAT, a joint peace-keeping force consisting of troops from Uzbekistan, Kazakhstan and Kyrgyzistan. Comprising training assistance on tasks ranging from mine-sweeping to distribution of humanitarian aid and offering the opportunity for high-level military contacts, CENTBAT provides these militaries the chance to work with their NATO counterparts in a collegial fashion. As part of one of the first joint exercises involving American soldiers and the CENTBAT force, 500 members of the U.S. Army's 82nd Airborne Division parachuted into Kazakhstan after a 23-hour flight from Fort Bragg. The impressive display powerfully represented the strategic reach of the U.S.; the Kazakhstan deputy foreign minister stated, "Five years ago, no one here could even dream of such things as American soldiers dropping out of the sky into a remote area of Kazakhstan"[10]

Because of the Section 907 sanctions on U.S. cooperation with Azerbaijan, the United States does not presently maintain any military links with Azerbaijan. However, the evolving closer defense ties with Azerbaijan's neighbors sends a clear signal that the U.S. and NATO is interested in the security of the region, of which Azerbaijan is one of the most valuable pieces. Moreover, Secretary of Defense Cohen discussed the strengthening of U.S.-Azerbaijani military cooperation with President Aliyev during his Washington visit and raised the prospect of future U.S. training assistance for the Azerbaijani army.[11]

This increasing military-to-military cooperation between the U.S. and Central Asian states is raising some concerns that Washington may be promising too much and will not deliver on its rhetoric in a genuine crisis. The deputy economics minister of Azerbaijan declared earlier this year, " When Iraq invaded Kuwait, remember what the United States did and why,.....the Americans went to war because the U.S. had oil interests there".[12] In September 1995, U.S. experts on Central Asia met with allied counterparts at NATO headquarters to explore the possible extension of U.S. security guarantees in the Persian Gulf to the Caspian Sea region, citing American interests in the Caspian energy resources. To date, no statement or agreement has signaled any formal U.S. commitment to the security of Azerbaijan or any of its Caspian Sea neighbors. However, in its efforts to win over various governments and secure American interests in the area, the U.S. may be dangerously raising expectations in the region.

Pressure on the U.S. Congress

The US Congress has complicated American policy in the Caspian Sea region through maintenance of restrictive sanctions since 1992 against Azerbaijan for its role in the conflict with Armenia over the Nagorno-Karabakh conflict. A vocal and powerful Armenian-American lobby in the Congress has since allowed only a slight relaxation of the sanctions, despite the lack of evidence that Azerbaijan has played the exclusively culpatory role in this war. Section 907 of the Freedom Support Act (1992) effectively blocks all official U.S. governmental support for the Baku government. The legislation prevents the U.S. from funneling humanitarian assistance for victims of the conflict through the government, restricts assistance on commercial, economic and legal reforms, and complicates American negotiators' ability to provide concrete incentives to Azerbaijan in on-going peace talks sponsored by the OSCE. As another example, analysts estimate that 80% of Azerbaijan's tax legislation must be revised in order to offer adequate guarantees to investors.[13] U.S. government experts have much experience in tax legislation reforms in the former Soviet Union, yet are prohibited by Section 907 from offering any advice to Azerbaijan.

The administration has strongly lobbied for the repeal of Section 907. Every time a senior official is called to Capitol Hill to testify on an issue relating to the Caspian Sea, repeal of Section 907 is mentioned in the opening remarks. Secretary of State Albright raised the issue during her confirmation hearings and submitted a letter to Congress in September 1998 calling for the provision's repeal. In his speech in July of 1997 on overall U.S. policy towards the Caucasus and Central Asia, Deputy Secretary of State Talbott declared,

> One [obstacle] is domestic--we have inflicted it on ourselves. I am referring to Section 907 of the Freedom Support Act, which limits our ability to provide assistance to the Government of Azerbaijan...it has had the negative effect of limiting our leverage with Baku and complicating our ability to be as effective as we could otherwise be as an honest broker (in Nagorno

> -Karabakh). It has also made it impossible for us to provide the Azerbaijanis with assistance on elections, economic reform, energy development, and in other areas where it is in our national interest to do so--hence our opposition to Section 907.

In 1997, an amendment did pass Congress that relaxed restrictions on the transmission of humanitarian aid through the Baku government and permitted U.S. assistance for democracy-building exercises. The administration has signaled its willingness to accept further piece-meal dilution of the sanctions, although it pushes for a complete lifting to equalize American policy towards Armenia and Azerbaijan.

CASE STUDY, PART B:

AMERICAN SUPPORT FOR BAKU-CEYHAN: WHAT WENT WRONG?

In the fall of 1997, as the deadline for the final judgement of the Azerbaijani International Oil Consortium (AIOC) on the routing of pipelines from the Azerbaijani oil fields grew closer, the Clinton administration appeared to have skillfully laid the groundwork for a favorable decision. Its comprehensive strategy of diplomatic flattery, economic rewards, the promise of closer military ties, and the modest relaxation of U.S. sanctions against Azerbaijan had solidly placed President Aliyev, and thus Azerbaijan, in the U.S. camp. Azerbaijani officials hailed their new alliance with Washington, recognizing that the westward routing of the transit pipelines would cement a strategic relationship with the United States into the next century. However, the AIOC's successive refusals to commit to a specific route, culminating in a final, indefinite postponement of any decision in December 1997, created the image of a disappointing setback for the Clinton administration. Administration officials, who had publicly marshaled support for a specific route from the Azerbaijani capital of Baku to Ceyhan, Turkey, now faced strong criticism for allowing this goal to slip through their fingers. What happened? While the administration focused its lobbying on the Azerbaijani government, they paid insufficient attention to the oil companies which constituted the AIOC and were responsible for the ultimate decision. This neglect of corporate decision-makers carries important lessons in a world where multinational corporations often now influence geopolitical developments to an equal or greater extent than sovereign governments. Moreover, as the administration deepened its involvement in the issue, it may have lost sight of the big picture and ignored the larger U.S. interests at stake. The decision to stake American credibility on a singular route was unnecessary and rendered agreement on a compromise solution more difficult.

In November 1997, the Clinton administration wrapped up a months-long study of the various possible routes for the main export pipeline from Azerbaijan. Energy Secretary Federico Pena used the occasion of a Washington seminar to announce the administration's support for the specific Baku-Ceyhan route, labeling this route along with an extension linking Kazakhstan the Eurasian Transportation Corridor. Pena's comments that day and subsequent rhetoric by U.S. officials signaled that Baku-Ceyhan represented the only acceptable main export pipeline route in the eyes of Washington. But Pena also acknowledged corporate concerns over the administration's choice when he declared that "any pipeline that is finally going to be constructed must reflect the market"[14]. Indeed, lack of commercial feasibility would prove to be the key stumbling block in the administration's advocacy of Baku-Ceyhan. A general supply glut on world markets, combined with the drop in demand precipitated by the Asian financial crisis, have driven oil prices to their lowest levels in more than thirty years. Oil prices at approximately $12 a barrel discourage investment in large-scale capital projects. In addition, a series of disappointing test drillings during the summer of 1998 raised questions over the genuine size of the oil reserves in the Azerbaijani fields.[15] These factors have combined to make construction of any main export pipeline a more risky investment. In October 1997 testimony before a Senate Foreign Relations subcommittee, the chairman of Amoco declared,

> the Baku-Ceyhan route is not currently competitive because, in short, it is twice as long as the Georgian route and, therefore, costs twice as much... I encourage [the Congress] and the administration to promote the strategic interests of the U.S. by helping make the Baku-Ceyhan route economically feasible.[16]

President Aliyev of Azerbaijan, Prime Minister Demirel of Turkey, President Shevardnadze of Georgia, President Nazarbayev of Kazakhstan, and President Niyazev of Turkmenistan met in Ankara for a grand regional summit on October 29th, the 75th anniversary of the founding of the Turkish republic by Kemal Ataturk. The event's significance was heightened by the fact that the AIOC planned to use the backdrop of the summit to announce its final decision on the routing of the main export pipeline to transport Azerbaijani oil. However, as the summit drew nearer, it became clear that the AIOC would not commit firmly to the Baku-Ceyhan route, preferring instead to postpone a final decision given the uncertainties of the world oil market and questions over the actual size of Caspian Sea reserves. On October 22nd, Deputy NSC Advisor James Steinberg, Special Advisor Richard Morningstar and other U.S. officials met at the White

House with representatives of the American participants in the AIOC oil consortium to engage in a last-ditch lobbying effort. Despite their efforts, the administration could not convince the U.S. companies to announce support for the Baku-Ceyhan route; their representatives only agreed that Baku-Ceyhan could become viable in the future if Caspian oil exports achieve sufficient growth.

On October 29th, the AIOC announced a postponement of its decision to November 12th, citing the need to wait for further information from a sub-level working group. The decision was subsequently put off once again to December 4th, at which time the AIOC simply announced an indefinite extension on its final decision. A U.S. official now argues that agreement on a final route is likely to come in June 1999[17], but even this date is doubtful. The Azerbaijani oil consortium has essentially decided to postpone the consideration of any main export pipeline. Following a visit to Turkey in November, Special Advisor Morningstar declared that U.S. efforts are now focused on obtaining a concrete commitment from the AIOC to build the pipeline in the future and to enter into negotiations with Turkey over further cost reductions on the pipeline route.[18]

Although the U.S. placed its credibility on the line through explicit support for a particular pipeline route, cultivated closer relations with regimes that held dubious democratization records, and risked a further alienation of Moscow, Washington has failed to achieve its objective set out in November 1997. Baku-Ceyhan will not become reality any time soon. Several lessons emerge from this apparent policy failure. First of all, the United States perhaps misjudged the proper target of its lobbying. While the support of the Azerbaijani government was crucial to construction of Baku-Ceyhan, that support was not sufficient by itself. At its very heart, the issue of the Caspian Sea pipelines remains a matter for the private sector. The oil companies are the primary customers of pipelines; hence, the oil companies must pay the costs for new pipeline construction. While understandable from a perspective of political feasibility, Washington's firm refusal to consider any direct U.S. assistance to reduce the costs of the Baku-Ceyhan route strongly undermined its prospects for success. Amoco, Mobil, and British Oil hold no concern for U.S. geopolitical interests or the Western orientation of Central Asian republics; their only priority lies in their bottom line. As such, the combination of expensive construction/transit costs and low oil prices doomed Baku-Ceyhan for the time being. If the U.S. placed so much strategic value in the construction of Baku-Ceyhan, it should have offered greater incentives for the oil companies. Alternatively, Washington could have placed a higher priority on persuading Turkey to provide significant reductions in transit fees and other concessions to reduce the overall costs of the Baku-Ceyhan route. Indeed, unconfirmed reports indicate that Ankara, under U.S. pressure, offered in December to guarantee domestic purchases of up to 100,000 barrels per day and significantly relax the tariff structure over its portion of the pipeline.[19] However, these proposed concessions may have been too little and too late. While Turkey's internal political bickering over the past six months complicated its negotiating stance, the U.S. should have placed more forceful pressure on its strategic ally if genuine American national interests were at stake.

Secondly, Washington may have lost sight of the big picture. If one reviews the five U.S. national interests in the Caspian Sea pipeline issue and the two specific policy objectives enunciated by the Clinton administration in 1995 when it first focused on the issue, nowhere is a specific pipeline route mentioned. American policy objectives instead revolved around the more general goal of multiple pipelines running on an east-west axis. In that sense, American interests in this issue remain very much alive. While Baku-Ceyhan is dead for the time being, Baku-Supsa has emerged as its primary alternative. This route runs on an east-west axis, does not transit Russian or Iranian territory, and provides a significant boost for Georgia, a U.S. strategic ally. Moreover, the non-viability of Baku-Ceyhan ironically may encourage the construction of several other smaller pipelines, which certainly fits in with a "multiple pipelines" approach.

By coming out so strongly in favor of the particular Baku-Ceyhan route, Washington may have allowed its ambitions to exceed its genuine capabilities. As this paper has demonstrated, the U.S. does carry clear national interests in the routing of the pipelines carrying oil and gas reserves from the Caspian Sea region; its actions to promote those interests in a general manner certainly demonstrated adroit diplomatic skills. However, it is less clear whether an external power, even a superpower like the U.S., should be in the business of telling private corporate entities whether or not they should build a pipeline along a specific route. Because Washington only holds indirect influence over these corporate interests and refused to countenance direct financing of pipeline construction, it was in a weak position to assure success for its policy objective. Moreover, by making its support for the Baku-Ceyhan route so high-profile and unyielding, Washington only heightened the sense of American failure when the AIOC failed to endorse the Baku-Ceyhan route in December.

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[9] Eppinger, interview by author.
[10] Tyler Marshall, "Caspian Sea: The next Persian Gulf?", Minneapolis Star Tribune, 8 March 1998, 17A.
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[12] Marshall 17A.
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